

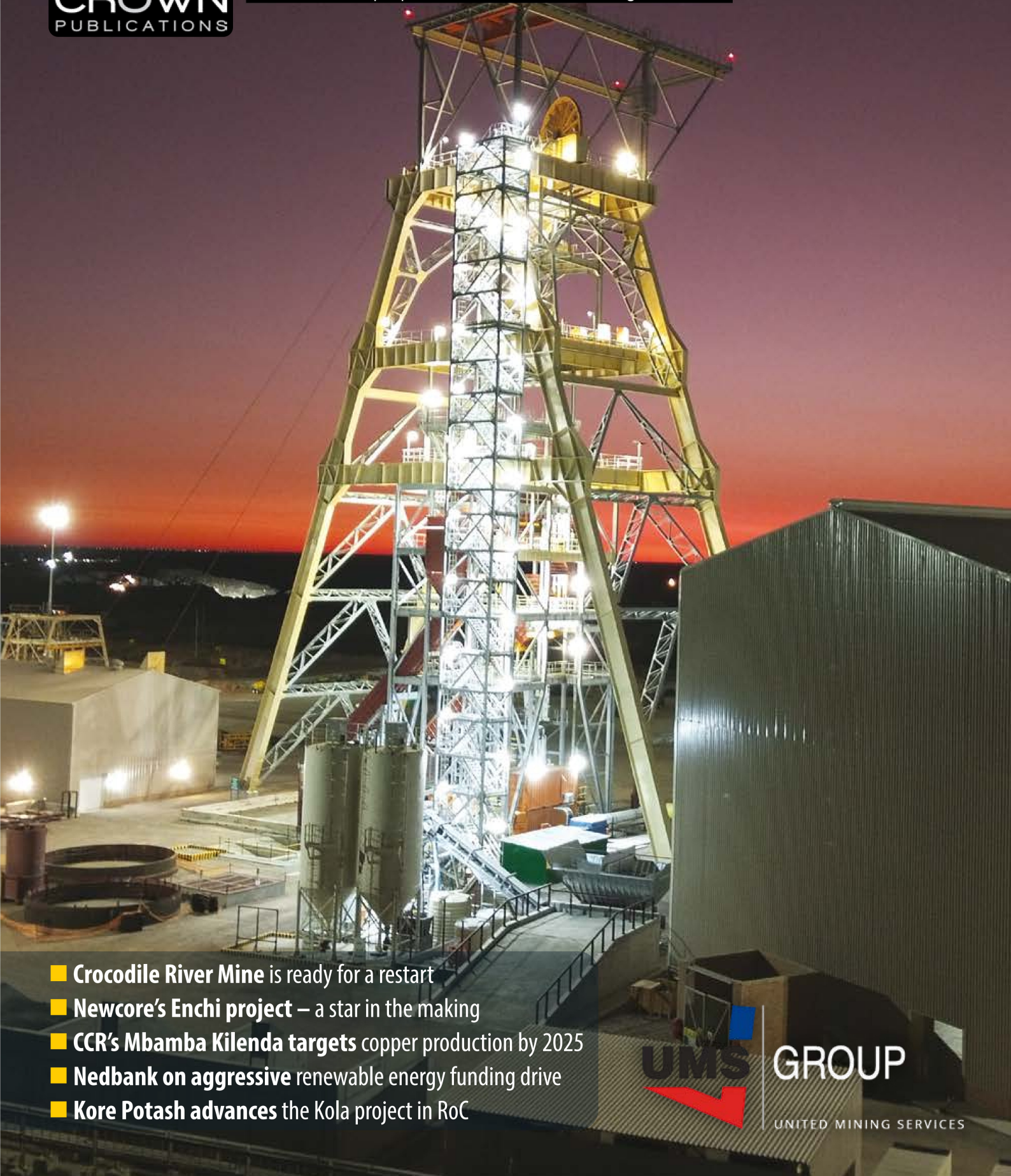
# MODERN MINING

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**CROWN**  
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# Copper outlook: Price performance review

By Alana van Wouw – market analyst at Crane Ridge

**Starting in 2020 – the copper price was directly affected as countries worldwide entered Covid induced lockdown which halted economic activity, including construction, manufacturing, and industrial production activity, across all sectors. This caused a sudden decrease in copper supply and demand that ultimately dragged the prices 27% down for the year. In July, China, the first country to emerge from lockdown, recommenced importing copper. This ultimately benefited the pricing and kept a bull trend throughout the second half of 2020, despite a second lockdown in China in the third quarter.**

**M**oving into 2021 – the weakness of the US dollar and pessimism about the US economy's long-term outlook compared to China, UK, or Europe maintained pressure on the copper price. Growing deficits in the US, worse-than-expected labour market with millions of jobless Americans resulting in massive stimulus packages, and a high tolerance for inflation from the Federal Reserve all negatively impacted the US dollar. This weakness of the US dollar supported the prices of copper throughout 2021. Slow production recovery coupled with the above-mentioned factors gave rise to a bull run in copper pricing, ending the year near \$10 000 per ton.

In 2022 – the war in Ukraine commenced on 24<sup>th</sup> February 2022 and dealt a major shock to commodity markets, altering global patterns of trade, production and consumption in ways that will keep prices at historically high levels through to the end of 2024, according to the World Bank's latest Commodity Market outlook report. Looming recession fears are pushing copper pricing down and, topped with political unrest in Japan and the UK, we are seeing downward pressure on copper prices. The closure of the Codelco's Ventanas smelter coincided with a 7% price decline, the most since mid-June 2021.



Copper is the most common metal used in the installation of new generation, storage, and transmission for consumption.

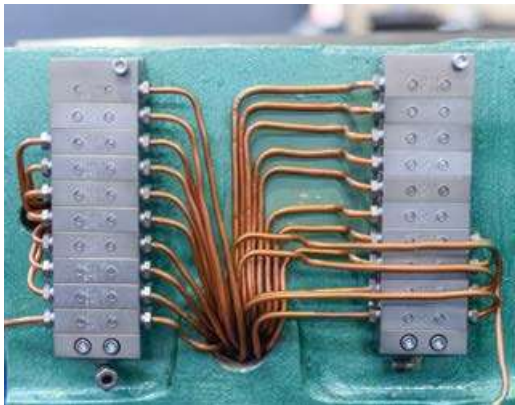
Analysts are still positive that the copper price will remain in the \$7 000 per tonne range, as this is driven by short- and medium-term future contracts. However, if you analyse the price performance it is likely that pricing may range between \$6-7 000 per tonne mark, aligning the copper in price ranges of 2017-19 prior to Covid.

## Copper outlook: Demand and supply dynamics

The impact of the coronavirus pandemic affected exporting countries in 2020, with both largest producing countries, Chile and Peru, going into long and severe lockdowns. This resulted in a halt of production, with the International Copper Study Group (ICSG) reporting a 20% decrease in production in Peru during the first half of 2020. By September 2020, LME warehouse stock levels had reached their lowest levels post 2005 and this was further exacerbated in the third quarter of 2020 by strikes and labour disputes.

The supply deficit in copper eased during 2021 as countries came out of lockdown, restarted production, and economic and manufacturing activities resumed.

In February 2022, the Ukraine war put the supply of copper in deficit as the pipeline for the supply of copper was impacted by mines in Russia (7% of global supply) being under sanction threats. However, this is not the only concern as the instability has had a direct impact on the operating costs of mine operations worldwide – through a ripple effect in higher costs to produce, affected by elevated oil prices, which have increased logistics and supply chain. The knock-on effect being higher labour costs demand and strike action causing lowered global production.



High-pressure copper pipes used in hydraulic equipment.

Development of the supply of copper will depend on an investment increase in new resources. Within the Operating and Expansion category an increase in Primary Reserves and Resources has occurred, indicating that further capital and investment is required to develop this copper pipeline through feasibility studies and engineering construction. Investment in new and undeveloped resources in the junior market has again been negatively impacted.

New drilling activities in 2022 have seen promising results in Papua New Guinea, Namibia, DRC and Australia.

**Copper outlook: Factors to watch**

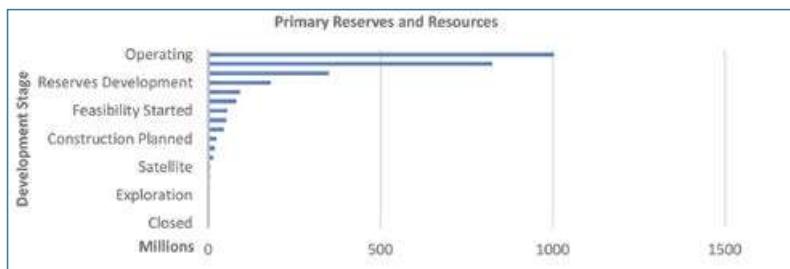
After 2020, global awareness of environmental impact resulted in a green energy focus for governments worldwide. Green energy is a transition from conventional thermal based energy resources to renewable sources. With this increased focus on climate change, governments are adopting green energy strategies for the future.

Copper is the most common metal used in the installation of new generation, storage and transmission for consumption. An example of green energy impact is the installation of charging infrastructure for Electric Vehicles (EVs) coupled with the additional copper consumed in the EVs themselves.

EV demand and sales have rapidly increased and are expected to continue to rise. The focus on green energy strategies is translating into an increased



Further capital and investment is required to develop the copper pipeline.



demand for copper and is likely to continue in the future.

Although recessionary fears have negatively impacted markets in the short term, this temporary downswing has been priced in and renewed global growth prospects return towards the end of 2022. Risk factors to the downside include ongoing or escalating geopolitical tension. ■

Below left: Copper smelting process.

Below: Analysts are still positive that the copper price will remain in the \$7 000 per tonne range.

